

# **SAN LUIS OBISPO COUNTY REGIONAL AIRPORT**

## **INTRODUCTION**

San Luis Obispo County Regional Airport (the Airport) is one of the County's major economic engines. The Airport provides the region with commercial air service and it is home to more than 300 general aviation tenants as well as a number of businesses that provide aviation related services. In providing these services, the Airport annually generates as much as \$180 million in total economic benefits.

Because of its importance to the County's economy, it is critical that Airport staff and County managers have policies and plans in place to ensure the Airport's current and future economic vitality. They must also ensure that any plans for future growth are appropriate and do not negatively impact neighboring communities.



## **ORIGIN / PURPOSE**

The 2006-2007 San Luis Obispo County Grand Jury received a citizen complaint that included claims of County mismanagement for several of its commercial operations (golf courses, airports, property leases, etc.), and specifically identified several Airport related issues. The claims related to non-Airport issues were vague and dealt more with the County's policy decisions which are not within the Grand Jury's investigative jurisdiction. As a result, the Grand Jury decided to investigate only Airport related issues.

As the investigation proceeded, the Grand Jury decided that providing a complete overview of the Airport would be appropriate. In addition to resolving issues in the complaint, the Grand Jury wanted to provide County citizens useful information about this important regional resource.

## **METHOD**

As part of its investigation, Grand Jurors did the following:

- Reviewed requests for proposal, agreements and other contract documents relating to Airport planning, commercial operations and facility leases.
- Interviewed Airport staff.
- Interviewed general aviation tenants and commercial operators.
- Interviewed County Auditor-Controller's staff.
- Reviewed Airport Master Plan documents.
- Reviewed planning documents and Airport informational materials.
- Toured Airport facilities.
- Reviewed planning documents for proposed Airport expansions and new facilities.

## **HISTORY**

The San Luis Obispo County Regional Airport began when Earl Thomson, along with his brothers-in-law, William "Chris" and David Hoover, convinced county officials to lease them the land needed for an airport. In April, 1939, the airport opened with an 88'-by-100' hangar and dirt runways. In 1940, the War Department installed hard surface runways and lights. In 1940 and 1941, 183 private pilots and 20 advanced students were trained here through a federally sponsored Civilian Pilot Training Program for armed services fliers. The federal government took over the airport during World War II and turned it back to the county in 1946. In that year Southwest Airways inaugurated airline passenger service to San Luis Obispo.

In 1947, county supervisors contracted for another hangar, ramp, and eventually an administration building. A full-time airport manager was appointed in 1953. In 1987, the San Luis Obispo County Regional Airport was dedicated as McChesney Field, in honor of Leroy E. McChesney for his leadership and dedication to aviation.

Airport facilities now include a terminal building, restaurant, numerous hangars and airplane related businesses, and in 1988, a control tower was opened by the Federal Aviation Administration (FAA). When the control tower opened, Wings West, Skywest, West Air, and American Eagle were already in operation. Today, three regional airlines serve the community: United Express (Skywest Airlines), American Eagle and America West Express (Mesa Airlines), with service to Los Angeles, San Francisco, Phoenix and Las Vegas. In June 2007, Delta Connection will begin service to Salt Lake City.

## **NARRATIVE**

### **ECONOMIC VALUE**

As mentioned in the introduction, the Airport is a major economic engine for the County. The following chart shows the Airport's estimated economic value to the community in the 2003-2004 fiscal year.

BENEFIT MEASURES			
	Revenues	Earnings	Employment
On-Airport Aviation Employers	\$51,406,000	\$10,029,000	347
Capital Projects	<u>\$2,599,000</u>	<u>\$374,000</u>	<u>18</u>
<b>All On-Airport Economic Benefits</b>	<b>\$54,005,000</b>	<b>\$10,403,000</b>	<b>365</b>
<b>Air Visitor Benefits</b>	<b>\$19,717,000</b>	<b>\$8,210,000</b>	<b>457</b>
<b>Indirect Benefits (Multiplier Effect of Secondary Spending)</b>	<b><u>\$68,327,000</u></b>	<b><u>\$19,690,000</u></b>	<b><u>719</u></b>
<b>TOTAL BENEFITS</b>	<b>\$142,049,000</b>	<b>\$38,303,000</b>	<b>1,541</b>

**Table Definitions:**

Revenue –	The value in dollars of the output of goods and services produced by businesses.
Earnings –	Employee compensation (the dollar value of payments received by workers as wages and benefits) and proprietor's income of business owners.
Employment –	The number of jobs supported by the revenues created by the Airport.
Air Visitor Benefits –	Benefits from commercial and general aviation air travelers who use the Airport.
Indirect Benefits –	The “multiplier effects” that result from additional spending induced in the economy to produce the other benefits listed.

However, the Airport is not a static enterprise. The most recent Airport Master Plan Update projects a steady growth in operations and number of aircraft. The table below shows these projections over the next 20 years.

	Fiscal Year 2003	Fiscal Year 2008	Fiscal Year 2013	Fiscal Year 2023
<b>Annual Enplanements <sup>1</sup></b>	<b>155,177</b>	<b>198,000</b>	<b>232,000</b>	<b>301,000</b>
Commercial Operations	14,710	13,600	13,000	15,000
Air Taxi Operations	1,630	1,800	2,000	2,200
Military Operations	769	850	850	850
General Aviation Operations	<u>92,155</u>	<u>101,300</u>	<u>107,800</u>	<u>122,000</u>
<b>Total Operations</b>	<b>109,264</b>	<b>117,550</b>	<b>123,650</b>	<b>140,050</b>
<b>Total Air Cargo (pounds)</b>	<b>1,242,592</b>	<b>1,400,000</b>	<b>1,600,000</b>	<b>2,000,000</b>
<b>Based Aircraft</b>	<b>301</b>	<b>320</b>	<b>350</b>	<b>400</b>

<sup>1</sup> # of passengers who board an aircraft in scheduled and non-scheduled service

Assuming that growth takes place as projected, the Airport will continue to be critical to the region's ongoing economic vitality.

## FUNDING

The Airport is an "Enterprise Fund." This means that, unlike most other County agencies, the Airport's primary source of funding is not the County's general fund. The Airport depends upon revenue it generates as its primary source of funding. For major improvements (runways, terminals, etc.,) the Airport also receives funding from state and federal grants, as well as from bonds issued for specific projects. The debt financing for these other funding sources is paid from Airport revenues. This means the Airport's ability to make staffing, service and infrastructure improvements is limited by its current and projected revenues. Any failure to maximize these revenues could severely impact the Airport's ability to provide the level of service that its customers (area citizens and Airport tenants) expect. Therefore, the Airport must continually balance the need to increase its fees with the possible loss of revenue that could occur if customers go to other airports due to unreasonable costs.

There is one major expense over which the Airport has little control. Because it uses County facilities and services, the Airport is required to pay more than \$500,000 in overhead and direct charges back to the County's general fund. This amount is currently within federally allowed limits. However, as is the case with government owned airports throughout the country, there is a constant tension between the County's need to maximize its revenue sources (particularly during tight budget years) and the FAA's mandate that airports primarily use their funds to operate, maintain and improve their aviation related services. The "diversion of revenue" issue is both a legal and an investment question. While within FAA limits, every dollar of Airport revenue the County takes can have a service level impact. If this impact becomes too serious, financial loss to the County from a reduction in generated benefits could outweigh the revenue transferred to the general fund.

## **CUSTOMER SERVICE**

The Airport faces several serious impediments in addressing all of its customer needs. Some problems relate to physical constraints of the Airport site which limit the Airport's ability to meet the needs of general aviation tenants for additional services and hanger space. It also limits the ability to extend runway lengths and expand terminal facilities to address commercial aviation's desire to accommodate more and larger aircraft. As these sometimes-conflicting needs increase, the Airport is faced with the difficult problem of allocating its limited resources. The Airport Master Plan determines its long- term needs and optimal ways to address them. This document (available on-line at <http://sloairport.com/Master%20Plan.htm> ) is reviewed and updated on a regularly to ensure its financial and market projections for the Airport are current and all facility and service changes are incorporated.

The Grand Jury interviewed several tenants. Their main concern was whether all tenants were being treated equally, and whether the Airport's enforcement of rules and regulations was consistent. They also claimed certain tenants received preferential treatment, and favoritism influenced the awarding of certain Airport contracts and allocation of hanger space. The Grand Jury found no facts supporting either allegation. These complaints may be due to differing perceptions that could be addressed through increased outreach by the Airport to keep tenants better informed and involved.

Parking fees at the airport are another customer service issue. While fees charged at San Luis Obispo County Regional Airport are very reasonable compared to other airports that charge for parking, nearby Santa Maria Public Airport provides “free” parking. The Grand Jury found that, for most airports, parking fees constitute the majority of revenues. Other funding sources must be found to supplement the loss of revenue at airports with free parking. In Santa Maria, this is done through an assessment district that taxes local residents and businesses to subsidize parking for airport patrons. In San Luis Obispo County, those who use the airport pay for this service rather than placing the cost on local taxpayers who may or may not use this facility.

## **USE OF TECHNOLOGY**

As is the case with most competitive businesses, it is critical that the Airport consider emerging technologies to help optimize productivity. One Airport project that demonstrates an innovative use of technology is the planned runway extension.

In order to accommodate a greater variety of aircraft, the Airport is planning to extend its main runway 1,000 feet to an ultimate length of 6,300 feet. The FAA typically requires a paved runway safety area extending 1,000 feet beyond the end of each runway. This safety area is primarily required for those rare occasions when aircraft overrun a runway and need extra room to decelerate and stop. Using the FAA standard design at San Luis Obispo County Regional Airport would have required extending the paved area over Acacia Creek on the northeast edge of the Airport. In addition to increased cost, the potential for severe environmental impacts would have delayed or even stopped the project. To address this problem, the Airport’s current design calls for the use of an Engineered Material Arresting System (EMAS), typically constructed from lightweight, crushable concrete. Should an aircraft roll into an EMAS arrestor bed, its tires would sink into the lightweight concrete, thus slowing the aircraft by having to roll through the material. This system allows the Airport to reduce the total length of both safety areas by as much as 800 feet, avoiding any impact to the creek. There are currently only eighteen other airports in the United States using this design.

While this is a very impressive project, the Airport should continue investigating new technologies to enhance safety and security, lower operating costs and improve customer services.

## **ORGANIZATIONAL STRUCTURE**

The Airport is a division within the County's General Services Department. Because the Airport is an enterprise fund and operates in a very competitive market, its business model is similar to that of private sector companies and very different from other County agencies. In order to be profitable, it must evaluate shifting customer needs and respond to rapidly changing market forces that drive the air transportation industry. Due to their importance to regional economies and their unique requirements, most government-owned, commercial airports are not divisions within departments. More typically, they are their own departments reporting directly to the local governing body or its appointed administrator, or independent "authorities" managed by a board that includes local officials. As a division, the added layer of management could inhibit an airport's innovation and calculated risk-taking essential to succeed in a competitive and rapidly changing environment. Because the Board of Supervisors is often more attuned to the region's overall business climate than other County staff, a closer working relationship between that body and the Airport would be advantageous to both entities and would better serve the community.

The Grand Jury also identified Airport staffing as another potential organizational problem. The Airport currently has a staff of thirteen full-time employees, four of which are supervisory level managers. Airport management is a very specialized field, thus finding experienced airport professionals to fill key vacancies can be challenging, even more so due to San Luis Obispo County's high cost of living. The County needs to ensure hiring procedures and position classification structures will promote the quick filling of any key vacancies that may occur. In addition, decisions and actions of the Airport Manager can have a direct influence on the regional economy, thus the Board of Supervisors may wish to consider making this position unclassified, serving at the will of the Board.



## **CONCLUSIONS**

Overall, the Grand Jury found San Luis Obispo County Regional Airport to be a professional and well managed organization. Throughout the investigation it was obvious that due to its location, demographics, and other factors, the Airport has the ability to attract and retain general and commercial aviation services that significantly benefit the region. Even those tenants who had negative comments about the airport admitted that, in spite of these problems, they would rather be at this Airport than at other facilities in San Luis Obispo or other adjacent counties.

The Airport is an investment that generates considerable regional economic benefits. However, the aviation services market is complicated and notorious for its rapidly shifting nature and vulnerability to external factors such as fuel costs and international instability. In order to protect this investment, the Airport must continually monitor its customers' needs and changing business environment, and County government should support those changes that will ensure the Airport's continued success.

## **FINDINGS**

1. The San Luis Obispo County Regional Airport is one of the County's major economic engines.
2. The Airport is an "Enterprise Fund." Hence, unlike most other County agencies, the Airport's primary source of funding is not the County's general fund. The Airport depends upon revenue it generates as its primary source of funding. A major expenditure not within Airport control is its reimbursement to the County's general fund for use of County facilities and services. If the amount transferred becomes excessive, it could seriously impact the Airport's capability to maintain an acceptable level of customer service.
3. While several Airport tenants expressed concerns regarding on-site operations and planning decisions, none appeared serious enough to drive tenants away. There may be

an opportunity to reduce this dissatisfaction through increased outreach to the tenant community, making them an important part of the Airport's decision-making process.

4. The Airport uses innovative technologies to maximize utilization and efficiency of its area-constrained facilities. However, it should seek out additional opportunities to benefit from technology.
5. The Airport is a division within the County's General Services Department. Because the Airport is an enterprise fund and operates in a very competitive market, its business model is very different from that of other County agencies. The current organizational structure will not provide flexibility the Airport needs to succeed in an extremely complex and rapidly changing market.
6. Because airport management is a very specialized field, finding experienced airport professionals to fill key vacancies can be a challenge. Current County hiring procedures and position classification structures will not have sufficient flexibility to quickly fill future Airport vacancies.

## **RECOMMENDATIONS**

1. The County should continually review the amount the Airport is required to reimburse to the general fund, ensuring conformance with FAA requirements and intent. (Finding #2)
2. Most complaints raised by Airport tenants were due primarily to differing perceptions. The Airport should address these concerns by increasing outreach programs to keep tenants better informed and involved. (Finding #3)
3. The County should establish an independent, fact-finding committee or task force to investigate benefits and implications of creating an Airport Department or Authority. (Finding #5)
4. The County should ensure hiring procedures and position classification structures have the flexibility to quickly fill any key Airport vacancies that may occur. (Finding #6)

## **REQUIRED RESPONSES**

1. San Luis Obispo County Auditor/Controller. (Recommendation #1)
2. San Luis Obispo County Airport Manager. (Recommendation #2)
3. San Luis Obispo County Administrator. (Recommendations #3 & #4)
4. San Luis Obispo County Board of Supervisors. (All Recommendations)